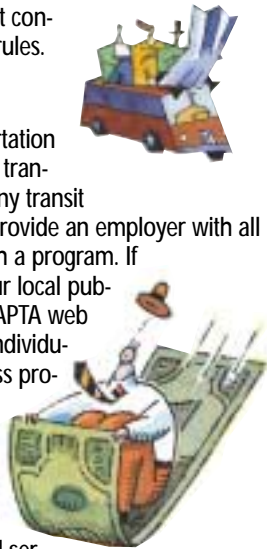


Who Is Eligible

Private employers, non-profit organizations, and public agencies can provide transit commuter benefits to employees, tax-free. Federal government employees and members of the military services are also eligible to receive transit commuter benefits. Federal government employees, who serve in the Executive Branch in the National Capital Region, receive the transit benefit under a Presidential Executive Order signed in April 2000. The Executive Order also permits federal employees in other areas of the US to spend up to \$100 per month of their pre-tax income for transit benefits. Self-employed individuals, partners, 2-percent shareholders of corporations, sole proprietors, and other independent contractors are not eligible under IRS rules.

Where To Start

First, call your local public transportation agency to see if it has developed a transit commuter benefit program. Many transit agencies have programs that will provide an employer with all the information needed to establish a program. If you are unsure how to contact your local public transportation agency, visit the APTA web site at www.apta.com for a list of individuals who administer local transit pass programs at agencies throughout the nation. you may also visit www.CommuterChoice.com for more information on the program and on service providers. If employees use a transit or vanpool service where passes, vouchers or similar fare media are not readily available, the employees may be reimbursed in cash for their transit or vanpool expenditures.



Additional Information

Additional information can be obtained via the Internet from the American Public Transportation Association at www.apta.com. The Federal Transit Administration provides an extensive list of materials under the heading "Commuter Choice" at www.fta.dot.gov, and the Internal Revenue Service provides guidance under the heading "commute benefit" at www.irs.ustreas.gov. The pertinent law can be found in Section 132 in the Internal Revenue Code, Title 26 of the United States Code, as modified by the Taxpayer Relief Act of 1997 and the Transportation Equity Act for the 21st Century. IRS Publication 535 also explains the law.

In addition, interested parties can visit www.CommuterChoice.com to find local providers of the benefit. The Commuter Choice Website is administered by the Association for Commuter Transportation (ACT).

Benefits Overview

Financial incentives have a significant impact on commute decisions. In 1998, the Transportation Equity Act for the 21st Century (TEA 21) amended the federal tax code to create financial incentives related to commuter benefits for employers and employees. The following section outlines these commuter choice tax incentives. In addition, several states now offer tax credits for Commuter Choice programs. Contact an attorney or accountant for specific tax guidance.

Employer-Paid Benefits

Employers can pay for their employees to commute by transit or van pool, up to a limit of \$100/month. With this arrangement, employees get up to \$100 in a tax-free transportation benefit. Employers get a tax deduction for the expense. Employers have found that providing transportation benefits offers significant savings over offering the equivalent dollar value to employees in the form of a salary increase.



Employee-Paid Benefits

Employers can allow employees to elect to exchange up to \$100/month in taxable salary for a tax-free transit or vanpool benefit. Employers save money overall since the amount exchanged is not subject to payroll taxes. Employees save money, too, since the amount of an employee's salary exchanged for transportation benefits is not subject to income tax, up to the specified monthly limits.

Shared-Cost Benefits

Employers can provide a portion of the cost of taking transit or vanpooling as a tax-free transit or vanpool benefit.



American Public Transportation Association
1666 K Street, NW
Washington, DC 20006
202/496-4800
www.apta.com

It Pays To Ride Public Transportation

Transit Commuter Benefits



"Rarely does an employee benefit save both the employee and employer money. But through a great twist of the tax code, you may be able to commute with tax free dollars, and save your boss tax dollars, too."

Kiplinger's Personal Finance Magazine

Reduce Your Commuting Costs By Sheltering A Portion Of Your Income From Federal Taxes

It really does pay to ride transit! The transit commuter benefit allows employers to give their workers up to \$100 per month to cover transit or vanpool commuting costs as a tax-free benefit. Alternatively, employers can allow employees to pay for commuter benefits with payroll deductions, or they can share these costs with employees by paying part of the commuter benefit and letting employees pay the remainder using pre-tax dollars. No matter who pays, both will save money by participating in this simple plan.

This brochure, developed by the American Public Transportation Association, provides information on how organizations and individuals can take advantage of the law, which was revised in June 1998 by the Transportation Equity Act for the 21st Century (PL 105 -178).

The Program In Brief

The changes in the law relate to transit commuter benefits, sometimes called "transit pass benefits" or "qualified transportation fringe benefits." Employer-paid transit commuter benefits are passes, vouchers or similar fare media, or sometimes just cash, provided to employees to cover their transit or qualified vanpool commuting costs.

Employee-paid benefits are the same benefits, paid for by reducing the employee's wages or salary before taxes are applied. The law also permits employees and employers to split the costs of the benefits.

Employees do not pay federal income or payroll taxes on transit commuter benefits, except on the amount (if any) in excess of \$100 per month. Generally, state and local taxes do not apply either. Thus, transit commuter benefits are treated much like other commonly available fringe benefits (e.g., employer-provided health insurance). Employers can deduct their costs for providing such benefits and they avoid payroll taxes on such benefits, regardless who pays.



EMPLOYER-PAID BENEFITS

Tax savings are available if an employer pays for the cost of the transit commuter benefits. For example, an employer can buy transit passes from local transit agencies and distribute the passes without charge to employees who sign up for the program.

Transit commuter benefits provide significant benefits for employers as well as employees. The employer's cost of providing benefits can be deducted as a normal business expense. Even better, unlike ordinary wage payments, employers do not have to pay their share of federal payroll taxes on transit commuter benefits. This payroll tax savings alone is usually more than enough to cover any cost of administering the program.

Transit commuter benefits provide an attractive alternative to expensive parking benefits. While many companies have offered parking benefits for years, smart employers are beginning to recognize tax-free transit commuter benefits as an environmentally responsible way to help their employees while reducing congestion and cutting pollution in the community. As an added benefit, employees arrive relaxed because they've avoided congested rush-hour drives. It's a terrific fringe that's affordable.

Finally, because federal law exempts the first \$100 per month in transit benefits from federal income and payroll taxes, and generally state and local taxes as well, the employer in this case effectively provides his or her employees with a tax-free transportation bonus.

Employers can also share the cost of commuting with their employees by paying for part of the transit commuter benefit and allowing employees to pay for the remainder using pre-tax dollars. That can be as much as \$1,200 a year in pre-tax savings!



EMPLOYEE-PAID BENEFITS

Employers can allow their employees to purchase transit commuter benefits—in effect, pay for their own transit and vanpool commuting costs—with pre-tax dollars. This is done by deducting the cost of the transit commuter benefits received by an employee from the employee's paycheck each pay period.

The first \$100 per month of commuting costs paid by the employee in this way will be completely exempt from federal income and payroll taxes, and generally state and local taxes as well. This will add up to a \$15 per month (\$180 per year) and sometimes larger tax savings for most employees.

Such pre-tax deductions from an employee's pay are comparable to those often used to pay for medical benefits under a cafeteria plan, or retirement benefits under a 401(k) plan.

The authority for employees to pay their own transit and qualified vanpool commuting costs with pre-tax dollars is a new element of existing law that was revised by the Transportation Equity Act for the 21st Century.

How It Works

A transit commuter benefit program is simple to administer. It does not require extensive record keeping. When passes, vouchers, or similar fare media are available, employers need only keep a record of the purchase of the media. In other cases, the employer must maintain records that reasonably demonstrate that any cash it pays to employees is being used to cover their actual transit or vanpool commuting costs. Employers may offer different transportation fringe benefits to their employees. Nondiscrimination rules do not apply to these benefits.

Although transit commuter benefits cannot be offered as part of a cafeteria plan, employers may use the same forms and administrative procedures for a transit commuter benefit program that they use for their cafeteria plan. Employers may also rely on other parties to administer some or all of their transit commuter benefit program.

